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SUBJECT: SW CHINA'S DIRTY WATER: WESTERN WATER GROUP BRIEFS CG

REF: 07 BEIJING 002454

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11. (U) This cable contains business confidential information,
not for distribution on the Internet.

12. (SBU) Summary: U.S.-based Western Water Group (WWG) confirmed
to CG that China lags behind its own goals for wastewater
treatment. While WWG has been quite successful in winning
contracts to build new plants, many local governments fail to
build the necessary water pipe systems to which the plants can
connect, resulting in plants running at low capacity or being
fully stopped. Competition from other firms is intense,
particularly from the French, but pressure for bribes has been
nonexistent in WWG's experience. End Summary.

13. (SBU) Representatives of U.S.-based Western Water Group (WWG)
and parent company Han's Technologies briefed CG and PolEconOff
August 12 in Kunming (Yunnan Province) on WWG's experience
building wastewater treatment and water treatment plants in
Southwest China. Established in 2002 in Guizhou Province as a
wholly-owned subsidiary of Oakland CA-based Han's Technologies,
WWG invests in and operates municipal wastewater treatment
plants and water treatment plants using both
build-operate-transfer (BOT) and transfer-operate-transfer (TOT)
business models. In Southwest China, WWG currently has 10 BOT
contracts signed in Guizhou and Yunnan Provinces, as well as
eight additional projects in Sichuan and Yunnan currently under
negotiation. (Note: WWG also currently has six signed contracts
in Zhejiang, Jiangsu, and Fujian Provinces. TOT is where an
investor buys property and operational rights of a facility,
receives returns through normal business operations within a
concession period, and then transfers the facility back to its
original owner for no cost at the end of the concession period.
End Note.)

China Short of Wastewater Treatment Goals

14. (SBU) According to WWG, a longer-term goal of the central government is to have 50-60 percent coverage for wastewater treatment facilities throughout China, with 100 percent coverage in cities and 40 percent in rural areas. The Ministry of Construction, as part of China's 11th Five-Year Plan, required that by 2010 the municipal wastewater treatment rate should not be lower than 70 percent, and all cities and counties should establish or plan to establish centralized wastewater treatment facilities. Reftel notes that, according to "official statistics," only 55 percent of wastewater was being treated as of 2007. Yunnan Province's 2008-2012 plan for expanding and building wastewater treatment plants foresees spending 21.3 billion RMB on 248 projects, according to a May 2009 Kunming news report.

Have Treatment Plants, Need Water Pipes

15. (SBU) While WWG has been successful in winning bids to build wastewater treatment plants, the projects face a critical difficulty in that many Chinese cities are slow to build piping systems. With no water system to connect to, many of WWG's plants are operating at only 30-40 percent capacity, and some are not operational at all. Local governments often want companies building wastewater treatment plants to build the city's pipe systems as well, but "no investor will touch pipes," WWG said. While WWG encourages local governments to fulfill their contractual commitments, some local governments have been compelled to buy back the WWG plants earlier than anticipated in the original contracts, e.g. because they failed to build the needed piping systems and thus have no billing revenues. WWG attempts to be lenient, sometimes agreeing to alter contracts when local governments cannot hold up their end in the near

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term. "WWG has to make money, but doesn't have to make money now," reps said.

Heated Competition, Particularly French

16. (SBU) WWG reported that they face 10-15 competitors in each plant negotiation, including both local and international companies. They made special mention of French competition, particularly Veolia, with French competitors receiving substantial support from the French Government. According to WWG, Veolia tends to overpay on the price of contracts in order to secure them, and then later raises water tariffs to cover the loss - often significantly more than originally "anticipated." As local officials tend not to be in power more than four years, WWG said, they are not concerned whether water tariffs will be raised later.

No Pressure for Bribery

17. (SBU) WWG claimed that they have never been asked by local officials for bribes, or to engage in corrupt practices. Some WWG projects have involved local officials who then were detained for corruption in later deals, WWG reps said, but subsequent investigations into these officials' previous

dealings have always exonerated WWG. In order to insulate itself from claims of being involved with corrupt officials in the future, WWG is lobbying in Guiyang (Guizhou Province) for more oversight by the Communist Party's anti-bribery committees.

(Note: these disciplinary committees investigate high-level officials and, as Party bodies, do not go through the normal system of prosecutors under the Ministry of Justice. End Note.)

BROWN